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CENTRAL INTELLIGENCE AGENCY

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4 October 1978

STAT

TO: Ms. Beverley Lumpkin
Subcommittee on International
Organizations
~~Committee on International Relations~~
House of Representatives
3515 House Annex 2

Dear Beverley:

Here is the paper on Korea
which you requested.



Assistant Legislative Counsel

Attachment

STAT

OLC #73-4041/A

FORM 1533 OBSOLETE
6-68 PREVIOUS EDITIONS

(40)

JLC #78-4041/3

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SIONorth Korea - South Korea: Estimated Military
Spending

A series showing South Korean military expenditure is presented in the attached table. The data were derived from government figures and have been converted from nominal South Korean won to constant 1975 dollars by using both the official GNP deflator and exchange rate.

We have not been able to derive a comparable North Korean series on defense expenditures. We believe that North Korea's announced military budget considerably understates actual expenditures. Even if an adequate estimate could be made, an equally difficult problem would be to convert North Korean currency into something comparable to South Korean won. An exchange rate which adequately reflects relative costs in the military sector of the two countries is not available and can not be estimated with our limited price data.

Given these severe limitations, we are able to comment on North Korean military spending in only the broadest of

ERM 78-10582

terms. General military force trends in the two countries indicate that North Korea's military spending was considerably higher than South Korea's spending in the 1960s. During the last several years, however, Seoul's rapid increase in military spending has narrowed - and may have closed - the gap.

South Korea's increased military spending is the result of both rapid economic growth and an increased share of resources devoted to defense - from 3.9% of GNP in 1967 to 6.4% in 1977. North Korea's military burden is much heavier, with 15%-20% of GNP believed to be devoted to defense expenditures.

South Korean Military Expenditures

<u>Year</u>	<u>Reported (Million Current Won)</u>	<u>GNP Deflator a/</u>	<u>Million 1975 Won</u>	<u>Million 1975\$ b/</u>
1966	40,542	27.3	148,000	305
1967	49,553	31.1	159,000	328
1968	64,708	34.8	186,000	386
1969	84,382	39.4	214,000	442
1970	102,335	45.4	225,000	464
1971	134,738	50.7	266,000	547
1972	173,909	58.0	300,000	617
1973	183,469	63.6	288,000	595
1974	296,846	80.4	369,000	762
1975	442,437	100.0	442,000	913
1976	703,753	115.7	608,000	1,254
1977	970,431	131.6	737,000	1,520

a. To convert current won into 1975 won. Economic Planning Board, Seoul, Korea.

b. Won 484 = \$1 in 1975.